

PORTFOLIO REPORT

EQUITY PERFORMANCE

HCM
HANDELS CAPITAL MANAGEMENT

August 2020

CEO Comments

Stock markets had a great month in August and we had an even better. The Swedish stock market returned 3.7% and is now up 3.5% year-to-date. Meanwhile our equities surged 6.1% and are now up 14.5% year-to-date. Our assets under management passed SEK 16m for the first time, having returned over SEK 1m this year amidst a pandemic. We are very pleased with this performance and did not make any significant changes in August. The main drivers I see behind the markets increase in August was continued momentum in the factors that has driven markets since March.

Firstly, markets cheered as further steps were made towards a vaccine. Astra Zeneca is running their phase three test where thousands of people are given the vaccine. Russia claims to already have a vaccine. Moderna that I mentioned before announced a supply agreement with US Gov. for an initial 100 million doses at a cost of up to USD 1.5bn.

Secondly, economic data continued to show a recovery. The headline of Swedbank's August report for economic outlook read "The recovery is here". Forward looking PMI's both in the US and Europe have now passed the 50-line and entered growth area. Yet I think it is still important to stress that the real economy is far from healthy and great uncertainty remains. As I have said a few times now, we need a vaccine to remove that uncertainty. One reason for our positive outlook for markets is that this uncertainty will be priced out of markets, assuming we have a vaccine by year end.

Third and last driver we note is the fiscal stimulus and the low interest rates. In August, progress was made in line with expectations regarding fiscal stimulus packages. The central banks however probably caught some investors off guard indicating that these low interest rates will likely stay there for a long time. We might be looking at 0% interest the next 5-7 years which was not in the valuation models of most analysts. Given this, I think the share performance lag in real estate is strange. Real estate tends to outperform in times of low interest rates. In addition, most properties are defensive assets, as signs of a weaker economic cycle appear, I would expect a rotation from cyclical to defensive assets. Yet this has not been the case so far, general BMI for Sweden has returned 45% since the lows in March while real estate is only up 26%. We are taking up the market on this valuation with some overweight in real estate.

Coming month, we expect to welcome some new analysts to our team as the recruiting process has been a success so far with a record number of applicants. I would like to thank everyone for their interest in HCM. With this bigger team we plan to increase our coverage and explore new investments.

Felix Ljungström
Chief executive officer
12/09/20

Asset Manager's Comments

Hello,

August was another strong month on the markets worldwide. OMXSGI generated a return of +3,7% in August and is now up +3,5% YTD. What a ride. The markets worldwide now entered their 5:th positive month in a row. Compared to OMXSGI, our equities significantly outperformed the market. HCM's equity portfolio returned +6,1% during July and is now almost +14,5% YTD. With regard to OMXSGI, we are obviously very pleased with the performance.

The best performers during the month were Medcap, Catella and Balco. The worst performers were Eastnine, Engelska Skolan and SBB.

The Q2 reports for our holdings have started to come in. Generally, we're really impressed by how the Nordic companies have been able to handle this turbulent time. Many reports are stronger than expected and the outlooks are bullish. It's important though to navigate between impressive performance and impressive earnings. Financial stimulus and governmental support have inflated many income statements which can be misleading to investors. What's clear is at least that Mr. Market is ignoring the temporarily depressed profits during 2020 and instead look at the earnings for 2021. We do the same.

Catella. One of our core holdings. The company has had some trouble during the last year and the forthcoming refinement of the business to a 100% real estate play has been delayed. Management has been restructured, the main owner is now the CEO and the bank settlement are lagging. Although, we remain our conviction.

The case is simple. MCAP of 1,9 SEKbn and an estimated cash position of 700 SEKbn before 2022 results in an EV of 1,2 SEKbn. Catella's Property Investment Management (PIM) will probably generate 350 SEKbn in EBIT in a couple of years. The balance sheet contains a lot of hidden value which will generate surplus cash in the coming years. Their equity fund (IPM & Catella funds) will hopefully and probably both be divested and Mr. Markets perception of Catella will transfer to an alternative real estate play. PIM has grown both AUM, sales and EBIT at a ~30% CAGR since 2015 and at the same time invested heavily in a geographic expansion over the income statement. Today, we could pay as cheap as 3x forward EBIT for this business. PIM peers such as CBRE and Patrizia are trading around 20x EBIT. Worth to mention is that these businesses aren't growing even near PIM's momentum. Either the market is wrong about the multiple for Catella or the multiple for CBRE/Patrizia. We have a strong conviction that the alpha from this investment will come, but we are of course not sure when this will happen. The R/R is too good to stand by the sideline. Classic sit on your ass investing.

MedCap reported a solid quarter. Abilia continues to be negatively impacted by the Norwegian tender last year and public restrictions but was partly offset by the other two divisions within MedTech. We still argue that the margins within Specialty Pharma keep lagging the long-term potential. The balance sheet is substantially deleveraged post the directed issue. Net debt to EBITDA is now reduced to 0.6x and they have a cash pile of 210 SEKbn ready for continued consolidation.

The stock is trading 15x EBIT Nordea's 2022 estimates. This guesstimate does not include any acquisitions and a noticeable reduced growth rate within MedTech. The company is targeting 1,5 SEKbn in 2022/2023 and

Nordea estimates -1 SEKbn. As you can see, there is a high discrepancy between “consensus” and the company. I have good confidence in the board and management and would not be surprised if the numbers in 2023 are substantially closer to 1,5 than 1 SEKbn. Time will tell. We keep our conviction.

The whole portfolio returned +2,8% in August, overperforming our benchmark by 2 percent points, which was up +0,8% during the month. Global Bonds returned a negative -1,2% compared to our benchmark which was down -2,0%. Corporate Bonds returned 0,0% compared to our benchmark at -3,2%. Alternative Investments returned a positive +2,1% compared to Barclays Hedge Fund Index which preliminary was up +2,3%. Alcur Select still stands out as a strong performer and has navigated this year exceptionally. It is important to note that our reported return in Alternative Investments is lagging with 1 month. This is due to the funds' NAV's updating after the last day of the month.

Sincerely,
Filip Helmroth
12/09/20

Top Ten Equity Holdings

Company Name	% Portfolio	Value
Top ten holdings	74,6%	4 134 784
SBB	12,3%	681 562
Investor AB A	11,2%	620 950
BillerudKorsnäs	8,8%	488 430
ChemoMetec	6,8%	377 840
Latour	6,6%	366 471
Kindred	6,5%	360 313
Microsoft	6,5%	358 699
Medistim	5,3%	295 020
Balco	5,3%	294 800
MedCap	5,2%	290 700

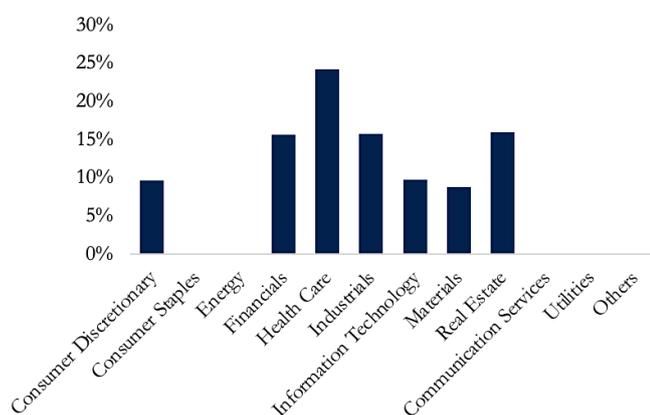
Gainers and Losers

Five Largest Portfolio % Gainers	% Portfolio	% Gain
Microsoft	6,5%	948,7%
MedCap	5,2%	127,7%
SBB	12,3%	72,3%
ChemoMetec	6,8%	57,7%
Balco	5,3%	49,7%

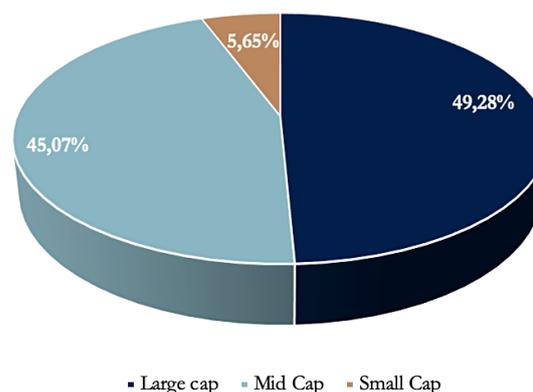
Five Largest Portfolio % Losers	% Portfolio	% Loss
C-RAD	2,4%	-23,8%
Kindred	6,5%	-23,7%
Loomis	3,8%	-16,3%
Catella	4,4%	-9,1%
Firefly	3,3%	3,6%

Market Cap Analysis

Market Sector



Market Cap Breakdown



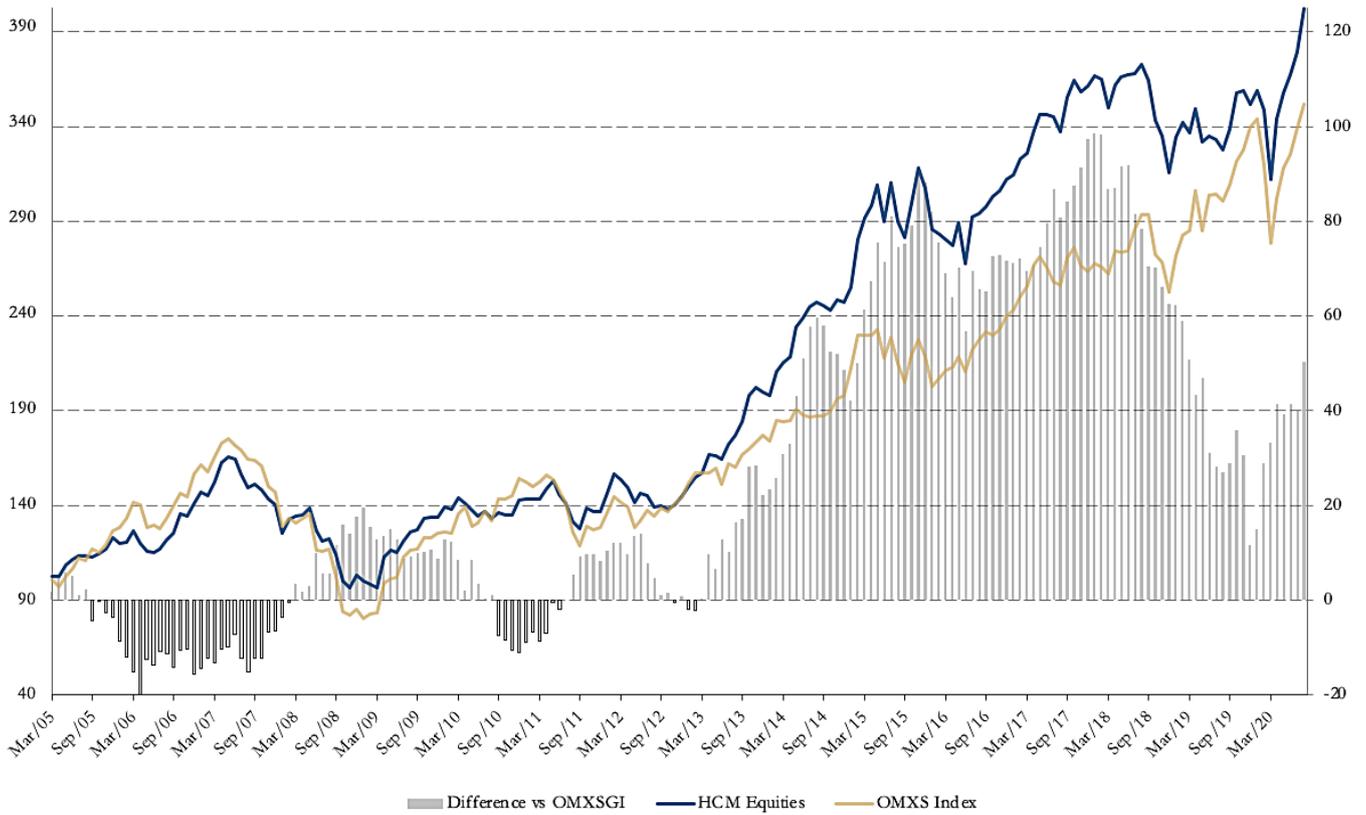
Equity Portfolio Statistics

Valuation	Portfolio	Benchmark
P/E - Current Fiscal Year	32,1	22,7
P/E - Next Fiscal Year	25,1	19,7
Price/Book	2,05	3,77
Price/Sales	2,31	3,16
Enterprise Value/EBITDA	22,1	16,4
ROE	16,8%	15,9%
Dividend Yield	2,2%	2,0%

Risk	Portfolio	Benchmark
5 Year Beta	0,78	0,63
2 Year Beta	0,93	0,69
1 Year Beta	0,91	0,66
5 Year Price Volatility	26,6	26,7
2 Year Price Volatility	41,5	31,1
1 Year Price Volatility	47,3	35,2

Growth	Portfolio	Benchmark
% EPS Growth - 5 Yr CAGR	10,5%	6,0%
% Rev Growth - 5 Yr CAGR	9,6%	1,1%

Equity Performance



Portfolio Performance

